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Realty Stock Review

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MLP Group Review: Campeau: Big Bankruptcy, Small Impact

When the American retailing units of Campeau Corp. of Toronto finally filed their long-heralded Chapter XI Bankruptcy petition on Jan. 15, it constituted one of the biggest non-events for realty stock investors of this young year.

Reasons for the very small ripple effect aren't hard to find:

Every step of Campeau's slide into bankruptcy was so exhaustively chronicled by the business press that the actual event became ho-hum news.

Realty stock investors clearly understood that the Campeau debacle stemmed from egregious over-leveraging, not the collapse of the underlying retailers. **EQK Green Acres**, a shopping center MLP with 37% of its space leased to Campeau stores, rose $0.25 on the news of the filing, for instance. It is the only shopping center MLP leasing space to a Campeau store.

Among other public companies, **Rouse Co.** has the only significant exposure to Campeau, and that is slight according to our Sept. 15, 1989 review. Campeau accounts for 12 of Rouse's 148 anchors, and while Campeau in total is Rouse's third largest tenant, we don't expect the bankruptcy to affect underlying store operations greatly and therefore see little, if any, impact on Rouse. Other publicly owned shopping center owner/operators aren't affected; **Federal Realty, First Union Real Estate, New Plan Realty, Pennsylvania REIT, Weingarten Realty** and **Western Investment RE** all have avoided Campeau.

Still the Campeau bankruptcy has so many implications for realty stock investors as the 1990s unfold — and more of the most-abusive LBO/takeover deals of the 1980s unwind — that you should look closely at the Campeau episode for some idea of what to expect in the months and years ahead. Here are two major lessons that stand out to us for guiding investment decisions.

1. Look askance at real estate developers who seek to "buy the store." A good part of Campeau's problems stem from a willingness to overpay for retail chains in the belief that ownership of a captive retail chain would bestow a huge edge in development of new shopping centers. After all, new stores could be located to suit the owner's needs for anchors. Campeau didn't invent the concept of "buying the store" (nor its cousin, "buy the bank" because you then control the money). But Campeau carried out its strategy on such a grand scale that it's important to understand how Campeau came a cropper.

Campeau Corp. was the alter ego of Robert Campeau, an aggressive builder who made his first big success by building offices for the Canadian government in Ottawa, then scored big by financing land development and/or speculation in southern California in the early 1970s.

When Campeau Corp. entered shopping center development, it quickly found that the locational preferences for the major U.S. retailers often conflicted with available sites. When the open-checkbook era of junk bond financing began flourishing, Campeau looked to acquire major U.S. retailers as a way of short-circuiting tough bargaining with the real estate departments of third-party retailers.

Buying the stores. First, in Dec. 1986 Campeau paid $3.47 bil. for Allied Stores Corp. This conquest came with the last minute aid of the largest U.S. shopping center owner, Edward D. Bartolo of Youngstown, O., who loaned a strategic $150 mil. to clinch the deal. Campeau quickly sold 16 of Allied's retailing units, eventually leaving Allied with Bon Marche in the Pacific Northwest, Stern's in the New York area, Jordan Marsh in New England, and Maas in Florida and the Southeast. Sales of Allied's other units generally came in on target and proceeds helped pay down acquisition debt and keep Allied on an even keel.

Second, flushed by this success, Campeau mounted an assault on much larger Federated Dept. Stores in Jan. 1988, bidding $4.2 bil. for this giant which included the fashionable Bloomingdale's stores in the Mid-Atlantic states. A bidding war with Macy's ensued that drove the price up 57% to $6.6 bil. before winning in April 1988. Following the Allied pattern, Campeau quickly sold five of Federated's units (Foley's, Brooks Brothers, I. Magnin, Filene's, and Bullock's

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Wilshire) for $3.35 bil., repaying a good slug of acquisition debt. But sale prices were somewhat below expectations and Campeau wound up having to refinance some acquisition debt.

In retrospect Campeau paid too much for Federated but was willing to do so because it had bigger fish to fry: a dominant position in U.S. shopping center development. Campeau borrowed $480 mil. acquisition debt from Edward J. DeBartolo Corp. secured by Ralph's Grocery Stores, a Southern Calif. supermarket chain owned by Campeau Canada and tenant in one center owned by **REIT of California**. (Ralph's, a valuable Campeau asset, now could be in jeopardy if the bankruptcy puts Campeau in default.) In July 1988 Campeau and DeBartolo announced a joint venture to build between 50 and 100 new regional malls over the next decade. The plans conjured up prospects of Campeau and Debartolo shutting out rival shopping center developers by controlling future shopping center sites and their anchors.

Campeau had indeed "bought the store" in a way that sent shivers through the shopping center industry.

Other developers have bought stores without disaster: notable examples are privately held **Crown American Corp.** of Johnstown, Pa., owner of Hess's Dept. Stores; and **A. Alfred Taubman Holdings** of Detroit, which acquired Woodward & Lothrop for $220 mil. after a bitter takeover battle in 1984. Both got in early and didn't overpay; both have restrained the urge to use their retailers as a lever to accelerate shopping center development.

Buying the banks. In recent years a number of developers have gone a parallel route, "buying the bank" in an effort to get closer to all that money. A number of homebuilders have bought foundering or brain-dead S&Ls, often with notable earnings success as the soaring earnings of **PHM Corp.**, parent of Pulte Home, attest (see RSR, May 26 and Nov. 10, 1989). It's much too early to tell how all these efforts will turn out. One negative straw in the wind is announcement that **Unicorp American Corp.** plans to liquidate after selling the New York savings bank it acquired in 1988 and the real estate it accumulated by acquiring a string of REITs in the early 1980s.

Contrariwise, Eli Broad, founder of **Kaufman & Broad Home Corp.**, proved so successful when he bought an insurance company in the early 1970s that he has split insurance operations into Broad, Inc., and left the homebuilding business in other hands.

Despite Broad's success, we remain skeptical of most cross-industry forays, especially when there's an openly avowed goal of circumventing bargaining with independent third parties. Third-party bargaining of developers vs. landlords, and developers vs. lenders, is one of the geniuses of capitalism and generally produces efficient allocation of resources. In its quest to get around third-party bargaining, Campeau Corp. strayed right into a bear trap.

2. Look at underlying businesses before getting scared by talk of bankruptcy. Since we expect that the 1990s may mark unwinding of many overblown deals of the 1980s, it's important to understand the reasons a deal is falling apart. If the underlying business is going down the tubes, no amount of financial engineering or restructuring can provide Rolaid relief longer-term.

Western Union strikes us as a classic example: new cash and financial footwork hasn't been able to keep a basic business from being eaten by the fax machine. In real estate, **Southmark Corp.** grew mightily when leverage and ample mortgage money made fat real estate trading profits possible. The music stopped when tax law changes reined in price rises, making SM's high leverage a disastrous burden. Now Southmark is seeking a new life as a thrift holding company.

Strong merchants. Campeau's American retailing operations present a completely different profile: Campeau's nine department store chains earned an estimated $450 mil. pretax in 1989, giving them a going-business value of about $2.7 to $4.0 bil. That means Campeau's lenders and equity holders may have to swallow $3.0 to 4.2 bil. losses. Sic transit greed. Bottom line is that Campeau's department stores aren't likely to go dark.

Quite the contrary, bankruptcy helps Campeau retailers because the bankruptcy court can guarantee payments to suppliers, assuring the retailers of being able to have a full array of merchandise for the crucial Easter selling season. This is the main reason the Campeau bankruptcy was greeted with relief and even welcomed by shopping center owners. They doubt that any Campeau retailers will actually try to shut down and disaffirm leases.

In contrast, **Hooker Corp.**, an Australian real estate developer which sought Ch. XI protection last August, failed for a completely different reason than Campeau: Hooker borrowed heavily to expand its retailing units (Bonwit Teller and B. Altman were the best known names) into geographic areas outside their traditional turf. Hooker's biggest new mall, 1.35 mil. sq. ft. in Cincinnati, was built in a blue-collar location but anchored by Hooker's high-fashion retailers. The mix didn't catch hold and Hooker went under. B. Altman's was closed because its flagship store on Manhattan's Fifth Avenue was saddled with an onerous lease that drained cash flow. Luckily, no publicly owned realty companies owned centers tenanted by Hooker retailers.

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AMERICAN REAL ESTATE PARTNERS, L.P. (ACP:NYSE) RANK C

ACP is a 1987 roll-up of 13 American Property Investors tax-shelter L.P.'s originated by Integrated Resources, Inc. (IRE:NYSE) and managed by a subsidiary of the troubled financial services giant. ACP owns 333 properties with $515.2 mil. in gross value, and holds $30.9 mil. mortgages on properties sold. Properties are mainly net-leased to major corporations in long-term deals which generated tax deductions for the corporate lessees and tax shelter for ACP's initial investors.

ACP will likely come under new control as IRE, parent of the General Partner (GP), American Property Investors, Inc., seeks to raise cash by selling its approx. 10% interest in ACP. ACP's portfolio as presently structured creates stable and predictable gross revenues, but produces very little appreciation potential. ACP is addressing this by selling single-tenant net leases and acquiring properties with greater growth potential. C Rank is continued.

Gut Issue: Would removal of IRE's shadow help ACP shares to rebound and again trade in the neighborhood of book value? Although ACP is an independent entity and is not directly ensnarled by IRE's massive debt problems, ACP's performance is subject to the resources IRE places at the GP's disposal. The good news is that IRE has sold its financial services operations and can concentrate on sale of its 10.6% combined interests in ACP. However the chances for a quick sale increasingly diminish as ACP shares have spiralled downward to 69% of book value since IRE's financial problems surfaced last June.

Passing control to a new GP would likely boost investor confidence in ACP, although identity of the new GP would be crucial in restoring confidence. A proposal by previous ACP management to acquire IRE's interest wasn't accepted and a revised offer may be in the works. In today's market, IRE's 1.55 mil. units and unit equivalents would not likely bring anywhere near the $35-$36 mil.-plus that we estimated soon after its June announcement. Our best guess now is the GP would bring about $30-$31 mil.

Growth enhancement: ACP's current management is intent on creating a portfolio with greater growth potential, mainly by selling net leases (very much in demand today) and using proceeds to acquire properties offering greater growth potential via rental roll-over and escalation. Such properties carry commensurate risk of decline in rents and occupancies as well, but to date ACP has purchased only single-tenant properties.

Through 1989, ACP had disposed of 51 of its original 378 properties, booking through Sept. 1989 net proceeds of $14.9 mil. and a gain of $3.2 mil. In 1989, 29 properties were sold for approx. $900,000 gain through Sept. In 1989 ACP bought six new properties, mainly the June 1989 acquisition/ leaseback for $15.2 mil. of two Pace Membership warehouses in Madison Heights and Taylor, Michigan and 50% interest in four Valu Stores supermarket properties for $17.5 mil. in the March 1989 quarter.

ACP has also attempted to address the lack of spark by buying units, and repurchased 317,400 units at an average $15.06 per unit through Nov., latest date reported.

Increasing leverage: ACP is beginning to increase leverage modestly, adding moderate risk to a bond-type portfolio. ACP's $15.75 mil. unsecured credit line from Manufacturers Hanover was repaid when it expired Dec. 1 using proceeds from $10.2 mil. mortgage refinancing on two properties acquired in June 1989 and gains from property sales. In May 1988 ACP raised $50 mil. in fixed rate debt which was used to retire higher cost mortgage debt.

Advice: Wait until a new general partner is identified and in place. Despite the high 17.2% yield and longer-term turn around potential, you don't have to be in a hurry here. Near-term liquidity pressures could delay portfolio restructuring and impede any effort to find a quality substitute GP. Between 33% and 50% of ACP's 1989 dividend of $2.00 will be non-taxable. (MJH)

ACP:NYSE RANK C Dec. years 14.56 mil. units.
Price: $11.63 Div. $2.00 Yld. 17.2% Price/cash flow: 6.51X

Year	EPU	CFU	Div.	High	Low	Yld.Range
1987	$1.66a	$1.72a	$1.50	$17.50	$12.50	8.5-12.0%
1988	1.81b	2.00b	2.00	16.88	14.625	11.8-13.7
1989E	1.72c	1.95c	2.00	16.00	10.25	12.5-19.5
1990E	NE	2.00	2.00	12.00	10.50	

Sales gains: a-Incl. $0.05/un; b-Incl. $0.24/un; c-Incl. $0.11/un. Began oper. 7/87.

Share data: Institutions own 0.3%; Insiders and GP own 10.6%;. Avg. weekly volume: 68,700 shs.

Finances 9/89 (Mil.$): Debt: $281.7M; Equity: $249.6M or $16.75/un. Debt/equity ratio: 1.13-1.

Address: 10 Union Square East, New York, NY 10017. (212) 353-7000.

BURGER KING INVESTORS MASTER L.P. (BKP:NYSE) RANK C

BKP owns 127 restaurants leased to Burger King franchisees. Grand Metropolitan PLC, a British food and spirit conglomerate, acquired in Jan. 1989 Pillsbury Corp., parent of Burger King Corp., BKP's sponsor and general partner.

Since BKP's Feb. 1986 initial offering, fast-food industry growth has emerged as a serious issue for investors. Growth is adequately addressed only through operating efficiency and market-share growth, and the management transition at Burger King has now fully clarified the chain's outlook. Rank of C is maintained.

Gut Issue: Will Grand Metropolitan's new direction reverse Burger King's slide in per store sales and market share? Grand Met says that its cost cutting, expansion and capital improvement programs, new marketing and service strategies are starting to pay off for Burger King, but so far this optimism is not reflected in results of Burger King's franchisees leasing stores from BKP. Average store sales at BKP units are likely to be off by 4% in 1989, double the 2% decline in 1988 to $977,100 sales/unit. BKP stores represent only about 2% of total Burger King outlets and thus may not fully represent chain results.

Burger King accounted for 8.1% of the $61 bil. fast food market in 1988, latest year reported, and trails far behind McDonalds, the industry kingpin with 18.7% market share. The next six months should prove critical in deciding the effectiveness of Grand Met's initiatives.

EPS, CFS and dividends: BKP's revenues in 1989 will probably fall about 5%, with costs rising slightly. From this we see EPS coming in at about $1.20 per share for 1989, and probably staying flat for 1990.

On the cash flow front, CFS should wind up 1989 down about 4% to $1.73-$1.74/un. This is well down from 1988 when BKP almost covered the $1.84 distribution with $1.81 cash flow. The CFS decline has forced BKP to cut dividends 4% to the current $1.72 annualized level. 1989 results have been penalized by about $0.05 per unit loss on the sale of a property which was reacquired by Burger King by exercising right of first refusal under BKP's Partnership Agreement.

Earlier in 1989 BKP stock had hit a new high as investors apparently rallied around Grand Met's operating plans; but when the dividend was cut in the Sept. quarter, confidence waned and shares fell in price to current 13.8% yield range, another 2% over the previous range.

Advice: We are cautiously optimistic that chain results will be reflected in BKP results in 1990. Customer perceptions are slow to change, so results of new strategies probably won't show up in CFS for some time. Shares are almost a pure play on the fortunes of Burger King and make BKP a buy for those who see Grand Met's policies really hitting pay-dirt. Improvement at the operating level is the hopeful dynamic factor and a nearly 14% yield is attractive for investors confident of a turn-around. (MJH)

BKP:NYSE RANK C Dec. years 4.64 mil. units
Price: $12.50 Div.$1.72 Yld. 13.8% Price/cash flow: 10.42

Year	Op.EPU	Op.CFU	Div.	High	Low	Yld.Range
1986	$1.21a	$1.53a	$1.58a	$24.38	$17.75	8.9- 6.5%
1987	1.37	1.83	1.88	21.00	12.25	15.3- 9.0
1988	1.31	1.81	1.84	16.50	12.75	14.4-11.2
1989E	1.20b	1.72	1.76	15.63	12.00	12.7-13.6
1990E	1.28	1.77	1.74	12.13	13.13z	

a-For 10 mon.; offered 2/86. b-Incl. $0.05/sh. loss on sale. z-To date.

Share data: Institutions own: 4.6%; insiders NA, general partner 1.0%. Avg. weekly volume: 33,600 sh.
Finances 9/89 (Mil.$): Debt: none. Equity: $79.8M ($17.59/un.)
Address: 200 S. Sixth St., Ste. 610, Minneapolis, MN 55402. (612) 330-8345.

CF INCOME PARTNERS L.P. (CFI:NYSE) RANK C

CFI has renamed from Cal Fed Income Partners L.P. after finalizing a three-way deal to bring in new management and increase development activity. The MLP's general partner (GP), a subsidiary of CFI's sponsor, CalFed Inc. (CAL:NYSE) has sold a 20% GP interest to the Wellsford Group, a real estate merchant banking firm based in New York. The Wellsford Group, pending unitholder approval, will acquire the entire GP.

Also included in the transaction is the acquisition by CFI from CAL of seven development properties and the restructuring of CFI debt held by CAL. CAL is a $26 bil. California S&L holding company. For CAL, stringent new S&L capital requirements and CFI's disappointing results mandated the sale of both its CFI holdings and its real estate development portfolio. Shares stay at C Rank.

Gut Issue: Will development and initial leasing risks hurt cash flow? CFI contends that the transition is structured to allow continuance of the $1.00 annual payout and eventually hopes to fully cover payout. This is welcome news since 1989 dividend was only 85% covered by cash flow, with the balance covered by borrowing, accreting interest with zero-coupon financing, and paying management incentive fees in units rather than cash.

CFI's objective is to restructure and extend debt, while improving its ability to generate revenues through property development/sale operations. The seven initial development properties, acquired for $37 mil. at prices set on a formula based on the lower of book value or market, offer CFI the chance for significant returns that can be achieved via the development process. CFI has an option to acquire 19 additional CAL properties.

CFI in turn also significantly reduces cash flow certainty with greater earnings volatility associated with property development. Initial properties are all in southern Calif. and all but one are joint ventures with respected developers. All but two of the 19 optioned properties are also in Calif. Of initial acquisitions some are completed and partially leased; all are slated for completion within the next 18 months. Sales are to take place in 1990 and 1991. Some properties may be held in portfolio upon completion. New properties are:

Property	Location	Type-description	Interest	Price(Mil.$)
Bridgecreek	Vista	Condo -70 units	100%	$4.67
Koll Bus. Ctr.	Laverne	Bus.park-land/4 bldgs.	50	7.40
PozzoCorona	Corona	Ind.park-264 th. SF	65	4.64
Dehavilland Oaks	Th. Oaks	R&D -77 th. SF	60	3.54
Harbor Sunflower	Santa Ana	Ind/Comm-land/12 bldgs.	50	2.78
Heritage West 1	Fontana	Housing -153 units	50	4.25
Valencia Tech	Valencia	Ind.park-land/2 bldgs.	50	9.52

Debt restructuring: CFI has restructured $173 mil. in debt held by CAL. The deal primarily converts two zero-coupon start up loans into partial-accreting loans, albeit at lower rates, and extends maturity to 1993 of a bank credit facility that was to expire in Dec. 1990 while shaving 50 basis points. The $62.5 mil. line has approx. $55 mil. outstanding at a rate of 9.5%. CFI used $30 mil. of its prime-line to complete the new acquisitions and pay down $2 mil. on a zero-loan that was accreting faster than the property securing it was appreciating.

An early gauge of CFI's success will be evidenced by its ability to service the restructured debt. While maturities were extended and average costs were lowered, some of the interest which had previously been accreting (freeing cash available for dividends) on approx. $49 mil. of zeroes will now be partially payable on a current basis. We estimate this will use another $0.23/unit of available cash. In addition development costs will most likely require additional borrowing, further reducing cash flow. CFI intends to cover this cash flow drain with sale proceeds from the initial seven and future development property sales.

EPS, CFS and dividends: CFI's core investment portfolio of $244 mil. in 18 income-producing properties throughout the U.S. should provide cash flow of about $0.85/unit in 1989. CFI's $1.00 dividend has no guaranteed sponsor support but has been maintained by paying $2.2 mil. incentive management fees in new units and accreting interest on three zero-coupon financings. We estimate that property sales in 1990 will have to net close to $0.25/unit just to cover the new debt service and reach 1989's cash flow level. It has been indicated that the Wellsford Group may also take incentive fees in units to free cash; nearly $0.17/unit in 1989. Again Management hopes to maintain payout level during the transition.

Advice: Avoid units until the dividend picture comes into focus. Because property sales are vital to maintain CFS and they are so unpredictable in today's environment, we have no feel as to their timing or profitability and make no estimate of 1990 cash flow at this time. Tax-motivated investors may consider holding the units since payout should be taxfree return of capital. Substantially all the 1989 distribution is expected to constitute passive loss recoverable only from CFI's future passive income (if any). (MJH)

CFI:NYSE RANK C Dec. years 13.13 mil. un.
Price: $7.38 Div. $1.00 Yld. 13.6% Price/CFU: 8.7X

Year	EPS	CFU	Div.	High	Low	Yld.Range
1986	$0.03a	$0.09a	$0.08	$10.88	$9.88	NM %
1987	0.19	0.84	1.00	10.75	6.00	16.7- 9.3
1988	d0.21	0.68	1.00	8.25	6.13	16.3-12.1
1989E	d0.54	0.85	1.00	8.00	5.13	14.8-12.5
1990E	NE	NE	1.00	6.50	5.75z	

a-Began oper. Sept. 22. z-To date.

Share data: Instituions own: 11.2%; insiders 0.003%, general partner 1%. Avg. weekly voulume 81,400 shs.
Finances 9/89 (Mil.$): Debt: $157.5M; Partners capital: $82.8M; Deprec. $3.7M; Equity + depr.: $6.58/un. Debt/equity ratio: 1.9-1.
Address: 5670 Wilshire, Suite 940, Los Angeles, Cal. 90036. (213) 444-3900.

EQK GREEN ACRES L.P. (EGA:NYSE) RANK B

EGA owns a net 1.24 mil. sq. ft. (SF) at Green Acres Mall on Sunrise Hwy. in Valley Stream and Hempstead, L.I. about one mile from the New York City line. EGA's holdings include 464,862 SF of high-rental mall retail shops; a net 166,500 SF outparcels; and 610,000 SF space leased to anchor department stores at $2-$5/SF. EGA has enjoyed strong cash flow and dividend gains since its Aug. 1986 offering and appraised current value has risen nearly 40% to $13.93/un.

But two of EGA's four anchors are owned by units of troubled Campeau Corp. and growth projections are on hold until Campeau's widely advertised liquidity pressures and the units' bankruptcy filing are resolved. We are reducing Rank to B pending the outcome but retain units in Portfolio Selector.

Gut Issue: What effect will bankruptcy filings by Campeau's two U.S. units have on EGA? The U.S. units of highly leveraged Campeau Corp. of Toronto sought bankruptcy protection from their creditors on Jan. 15, 1990. Campeau borrowed $7 bil. to buy Federated Department Stores and Allied Stores, but a series of miscalculations left Campeau staggering under the corporate debt load.

Campeau units Stern's and Abraham & Straus operate two of EGA's four anchors, accounting for 186,900 and 266,700 SF respectively, or 36.6% of the total net leasable area at Green Acres. But because they pay low rent averaging about $2.26/SF, the pair account for only about 8% of minimum rents. Both are profitable retailers hurt by upstream corporate managers who couldn't resist taking on untenable debt loads. As cogs in a seriously overleveraged Campeau, A&S and Stern's weren't likely to get the cash for inventory and marketing they need to stay competitive. But by seeking to reorganize in bankruptcy, A&S and Stern's presumably will be able to issue certificates backed by the bankruptcy court to buy new inventory. This would keep EGA's stores competitive, which is the key long-term issue for EGA since small-shop tenants depend upon healthy anchors.

The stock market didn't sell off EGA units in anticipation of Campeau's bankruptcy and share price moved up in initial reaction to the filing. A vote of confidence came from Myles Tannenbaum, chairman of EGA's general partner, who bought 110,800 shares at $11.38 to $12.50/unit between Oct. and Dec. The $1.3 mil. purchases boosted his stake to 7.2%.

Cash flow and dividends. Until the Campeau cloud, retail sales, rents and distributions by EGA all far exceeded expectations and projections made in EGA's offering prospectus. Mall store sales jumped 5.9% to $350/SF in 1988 and likely rose

another 4%-5% in 1989, putting EGA shops well above national averages in a year widely perceived as difficult for retailers. EGA's rents rose about 3.4% through September and should be up about 4% for 1989.

The increasing likelihood of recession later this year and Campeau uncertainty could affect sales and moderately dampen cash flow and payout growth, but we think EGA's mall tenants should hold their own, barring all but either a deep recession or wipeout that forces closing of both Campeau stores. We don't expect this latter scenario. EGA's Green Acres Mall's other anchors are both strong middle-market retailers: Sears Roebuck, which owns its building subject to a ground lease; and J.C. Penney. The Mall and outparcels remain about 99% leased and relatively few leases roll over until 1993.

Expansion. EGA has entered a long-term lease for a 177,000 SF industrial building on a ten-acre parcel adjoining the Mall. EGA plans to convert the property into a convenience center with large supermarket, home improvement center, and smaller convenience shops. Agreements in principle have been reached with two large anchor tenants. The project, which still requires zoning approval, could open by late 1990 if all goes well.

Current asset value: EGA's annual, year-end independent appraisal of Green Acres Mall placed its value at $218.3 mil. and net liquidating value at $13.93/un. at the end of 1988, net of zero-coupon debt and sale costs. We expect a modest increase to about $14.25-$14.50/unit for 1989. These values effectively cap EGA's net operating income at 7.0%, but with many malls changing hands today at 5-5.5% cap rates, we sense that true value may be closer $17.50-$20/unit. These estimates allow for zero-coupon notes accreting at 10.4% until Feb. 1995. Accretion provides about 42% of cash flow/unit.

Advice: Hold units long term or buy aggressively. EGA has boosted payout eleven straight quarters now to $1.29 annual rate and all but $0.02-$0.03 of distributions are tax sheltered return of capital. But until the Campeau situation clarifies, only aggressive investors will be buyers. (KDC)

EGA:NYSE RANK B Dec. years 10.17 mil. units.
Price: $11.88 Div.$1.29 Yld. 10.8% Price/CFU: 10.0X

Year	Op.EPU	CFU	Div.	High	Low	Yld.Range
1986	$0.088	$0.342	$0.325	$11.25	$ 9.75	2.9- 3.3
1987	0.352	1.118	1.0675	11.75	7.50	9.1-14.2
1988	0.40	1.254	1.18	13.50	10.50	8.7-11.2
1989E	0.45	1.30	1.2425	13.63	11.25	9.2-11.0
1990E	NE	NE	1.29	12.13	11.50z	

CFU incl. interest accretion on zero-coupon debt. z-To date.

Finances 9/89 (Mil.$): Debt: $61.8M; Equity: $71.6M; Accum. deprec: $8.6M; Equity plus depr.: $7.88/unit. Debt/Equity ratio: 0.86-1.
Address: 3 Bala Plaza E., Box 1565, Bala Cynwyd, PA 19004. (215) 667-2300.

SHOPCO LAUREL CENTRE L.P. (LSC:ASE) RANK B

LSC is a master limited partnership that owns Laurel Centre, a ten year old, 660,500 SF regional mall built on 35.5 acres in Laurel, Md., a northeastern suburb of Washington, D.C. Laurel Centre is anchored by J.C. Penney, Hecht [May Dept. Stores] and Montgomery Wards department store [Mobil]. LSC owns 244,100 SF of mall space and the 137,000 SF Penney store. The other two anchors own their stores. Shares are raised to Ranked B and continue in Portfolio Selector.

LSC's general partner (GP) is a unit of Shearson Lehman, which has been backpedaling on partnerships lately. The mall is financed with a $22.5 mil. zero coupon loan on which LSC pays no interest until maturity in 1998, or upon sale of the property. LSC shares have been discounted 11% from their April, 1987, $10 offer price and 28% from our current value estimate of $12.39/un. Several factors are affecting the market's perception of LSC, most of which we see as unfounded in fact.

Gut Issue: Will completion of Laurel Centre's food court and increases in mall sales boost unit price? Sales of tenants, excluding anchors, rose 11.6% in the first eight months of 1989 to $33.6 mil. and likely topped $255 SF in 1989, vs. $231/SF in 1988. Occupancy stands at 99.1%. Strong sales gains were recorded before LSC finally completed its food court in the Sept. quarter The project had temporarily created localized vacancies, lowering sales and boosting operating expenses.

The food court has been well received and management is saying that cash flow gains could range all the way up to 20% for 1990. If LSC can meet that projection, LSC units could be a real sleeper.

Risk vs. return: LSC offers an attractive 24% internal return rate (IRR) for those buying at current prices and willing to accept certain risks for a seven year holding period (assuming 1998 sale of the mall). We base our return figures on LSC's originally estimated payout schedule (which is conservative compared to current payout levels), and on a conservative estimate of terminal sale value for Laurel Centre.

Investor risks include future cash flow growth rates and the final sale value of Laurel Centre. The most visible cash flow risks are the posibility of a short-run sales slump in any recession; a management let-down if and when Shearson distances itself from MLP operations; and competitive pressures which LSC will likely experience as two competing malls come on stream in the early 1990's.

Potential threats to future appreciation could be a drop in regional mall sales relative to free-standing discount stores, and a diminishing investor demand for regional malls. Currently these malls are the most highly sought after property types, trading at capitalization rates of 5% to 6%. The market seems to be pricing LSC in this range, assuming traditional amortizing mortgage debt.

EPS, CFS and dividends: Disruption and vacancies caused by construction of the food court kept nine-month rental income flat and full-year 1989 numbers should be up 2%-3%. The food court, opened in November 1989 at a cost around $1 mil., has space for a dozen fast-food restaurants and should add significantly to 1990 rents.

But LSC held operating expenses flat and pushed cash flow available for distribution up 10% to $0.77/unit, still shy of the $0.82/un. nine-month payout. LSC will tap a cash reserve established in the initial public offering to support distributions. Almost 100% of 1989 distributions were tax deferred.

LSC's zero-coupon debt is potentially hazardous. LSC financed the purchase of the mall with a $22.5 million zero note accreting at 10.2% and maturing in 1998. The note pays off at $57.8 mil., about 80% of the property's 1988 appraised value of $80.0 mil. At our estimate of 1989 appraised value, the units would be worth $12.39.

Current value discount: LSC shares are trading at a 28% discount to our $12.39/un estimate of current asset value.

Advice: Buy for longer-term return. We remain high on regional malls and see LSC as one of the few opportunities for small investors to play. The still unproven food court adds a bit of uncertainty to our 1990 estimates. It appears that the zero coupon financing of single property regional mall acquisitions is one of the few winning strategies of the zero craze. (MJH)

LSC:ASE Rank: B Dec. years 4.66 mil. units
Price: $8.88 Div. $1.10 Yield 12.4%

	Op.EPS	CFS	Dist.	High	Low	Yield
1987a	$0.16	$0.69	$0.72	$10.13	$5.75	11-20
1988	0.14	1.02	1.08	10.25	7.50	11-14
1989E	0.05	1.11	1.10	10.50	8.13	13.4-10.4
1990E	NE	1.15	1.12	9.00	8.25z	

z-To date. Oper. CFS includes accretion of interest on zero-coupon mortgages.

Unitholder data: Institutions own 0.9%; Insiders 0.2%. Avg. weekly volume: 23,200 un.
Finances 9/89 (Mil.$): Debt: $28.7M ($6.2M accreted interest): Equity $32.6M. or $6.99/unit Accum. deprec. $3.4M or 73¢/un. Debt/equity ratio:: 0.88 - 1.
Address: c/o Shearson Lehman Hutton, 31 W. 52 St., NY, NY 10019 212/298-4500

LA QUINTA MOTOR INN L.P. (LQP:NYSE) RANK B

LQP is a master limited partnership that owns 31 motels managed by the sponsor, La Quinta Motor Inns, Inc. (LQM:NYSE). LQP's 3,802 rooms are an average of 10 years old and are concentrated in the Southeast and Southwest, where recession has hurt. The partnership came public in 1986 at $20/unit, but cash flow problems have pushed the price down to as low as $6.50 per share. Units rise to B Rank.

Gut Issue: Has the market fully discounted LQP units for its impending dividend cut? LQP's $2.00 dividend had been guaranteed by its sponsor through Oct. 1989, and management now estimates payout at $1.00 to $1.25/un. for 1990. The market seems to think even this isn't sustainable because if LQP refinances any of its debt, then the $12.5 mil. dividend supplement from the sponsor becomes a priority liability.

Confusing the issue of what LQP can pay is the fact that dividends are paid on a trailing basis: the payment scheduled for March 1990 (and to be declared soon) will cover the Dec. 1989 quarter, which had only 22 days covered by the sponsor guarantee.

LQP shares have deflated over 50% in the last 18 months as the market anticipated the dividend's decline. With the new dividend level coming into focus, we feel that LQP shares may have finally bounced off their bottom. Here's why:

• Occupancy is holding relatively steady. While this figure typically fluctuates every period between the low 60% and 70% mark, on an average yearly basis occupancy has held slightly above 65%.

• Average room rates continue to increase. The Sept. quarter average room rate of $38.15 rose 5% from 1988. Annual increases are running more in the 1% to 2% range but, coupled with steady occupancy gains, translate into cash flow growth.

• Capital spending and marketing costs have been boosted. While they penalizes current cash flow, they also will help improve market share and LQP's ability to raise room rates in the future. This means that LQP's expenses are substantially higher than initially planned: Capital expenditure reserves were increased to 5% of revenues from 3%, and marketing fees were boosted chain-wide to 2% of revenues from 1%.

• Markets are reviving and are poised for a turn-around. LQP's concentration in Texas (30% of rooms) and Florida (21% of rooms) helps this revival.

One possible drag: LQM's dividend support has totaled nearly $12.5 mil. and will become a priority claim if and when LQP refinances its debt. If LQP refinances at current rates, it would have to pay approx. $0.30 per share annually to service this new debt. While this would be a drag on cash flow, we feel this would still provide adequate return at current unit prices and would prevent shares from plummeting further. Since LQP in not obligated to refinance its $69.4 mil. mortgage debt, repayment might not be required for several years.

Institutional interest. Blocks around 5% each of LQP' outstanding units are held by Eagle Fund, managed by Arnhold & S. Bleichroeder Inc.; Cohen & Steers Capital Mgmt.; and Integrated Resources' asset management unit. What do they see? (1) A stock that is trading at a 63% discount to its $20 initial

offering price. (2) Motel rooms in a strong chain priced by the market at about 80% of replacement cost. (3) Concentration in strong Texas recovery markets.

Advice: Buy shares. Supportable cash flow level indicates a new dividend of $0.75 to $1.00 per unit and a floor for the stock. At current price this would bring investors an 11% to 14% yield with little downside. The lower yield is based on cash flow after servicing additional debt taken to pay LQM's dividend suppport. Close to 100% of 1989 payout will be tax sheltered. (MJH)

LQP:NYSE Rank B Dec. years 3.975 mil. units
Price: $7.13 Div. $1.00 est. Yield 14.1% Price/CFU 7.13X

Year	Op. EPU	CFU	Dist.	High	Low	Yield
1986a	$(0.09)	$0.11	$0.84	$19.88	$17.75	2- 2%
1987	(0.01)	1.51	2.00	19.13	10.75	10-19
1988	(0.48)	1.30	2.00	15.50	10.25	13-20
1989E	(0.45)	1.00	2.00	13.00	6.50	
1990E	NE	1.15	1.00	7.13	6.63z	

a-Began operations 10/86. z-To date.

Unitholder data: Institutions own: 17.9%; insiders 0.5%. Avg. weekly vol. 49,700 units.
Finances 9/89 (Mil.$): Debt: $69.5 mil. Equity: $57.3 Equity/unit: $14.41/un. Debt/equity ratio: 1.21-1
Address: 10010 San Pedro Ave. San Antonio, Tex. 78216 Phone: (512) 366-6030

EQUITABLE REAL ESTATE SHOPPING CENTER L.P. (EQM:NYSE) RANK B

EQM is a master limited partnership that owns interests in two enclosed regional shopping malls: Brookdale, a 990,000 sq.ft. mall northwest of Minneapolis (where EQM owns 214,500 SF mall space and anchors own or lease the rest); and Northland, 1.65 mil. SF mall in the Detroit suburb of Southfield (where EQM owns 466,600 SF mall space and 34,450 SF outparcels). EQM properties are managed by a unit of Equitable Life Assurance. EQM plans selling its properties and liquidating in 1995. Ranking is raised to B.

Gut Issue: Are EQM's centers worth 25% less than EQK Green Acres, a very similar MLP? EQM units yield 13.6% in today's market, highest by far among the three shopping center MLPs reviewed this issue. Lowest yield among the trio is the 10.4% for EQK Green Acres (EGA), a Long Island mall with 37% of leasable space tenanted by department stores owned by the bankrupt Campeau Corp. (see p. 5). Thus investors are getting a 25% yield premium for holding EQM as compared to EGA. The gut question is whether EQM's Northland and Brookdale are such dinosaurs among shopping centers that they are riskier than faster growing Green Acres even with the Campeau cloud.

Sales Growth. Start with slower sales growth. Merchant sales grew in 1989 about 1.3% at Brookdale and 2.4% at Northland, vs. 1.8% and 0.4% sales gains at Brookdale and Northland respectively, in 1988. Both gains still trail the 4.6% inflation rate of 1989. This puts sales per sq.ft. at about $250 and $230/SF respectively. Brookdale occupancy remains strong at 99.9% but Northland's occupancy slipped to 89% at Sept. 30, down about 3% since last spring and leaving ample room for growth. With a shallow recession expected sometime in 1990, we doubt that EQM's slow but steady growth path will be interrupted in any meaningful way.

Cash flow exceeds projections. Slow sales notwithstanding, EQM is ahead of initial-offer projections due to lower management and administrative expenses. Operating cash flow should rise about 4% to $1.10/unit for 1989, amply covering the $1.04 annual distribution rate which is ahead of projections. Cash flow is 44% (or $0.48/un.) derived from zero-coupon mortgage accretion. Full-year 1989 sales and cash flow gains point to another quarterly distribution increase to about a $1.08/unit annual rate around the Mar. 1990 quarter.

Current asset value: EQM's appraised value should wind up 1989 at about $10.60/unit, or a 4% gain from the $10.22/unit of 1988. Both numbers adjust appraisals for the general partner's 1% net interest. We estimate independent appraisers will value the two centers at $165 mil. at end of 1989, up 22% since the Dec. 1986 acquisition price and subsequent capital improvements. Put another way, we think net value has increased $29.8 mil. since EQM's 1986 offering, offset by $14.25 mil. gain in accreted zero-mortgage interest, or $1.45/un. gain over the $9.16 initial value of limited partnership (LP) units.

The appraised value implies that 1989 net operating income (rentals minus direct property expenses) are capitalized at 7.0% to 7.5%, whereas some recent enclosed malls have sold at more aggressive 5%-5.5% cap rates. One caution: a number of regional malls currently are on the market and the appraiser's cap rate seems more in line with reality than the lower cap rates. Given the crowded market and sales track record, we doubt you can push EQM valuations but still think a sale today could add $1-$2/un. to appraised values. We also think EQM's estimated $9.73/un. liquidating value in 1995 is on track.

Advice: We continue our buy recommendation as a yield and long-term growth vehicle. Units continue in Portfolio Selector. With 13.6% yield and a small capital gain at the end of the line in 1995, EQM is for long-term holders. Distributions are largely return of capital. We'd hold EQM in a package with other mall MLPs and REITs to diversify risk. (KDC)

EQM:NYSE Rank: B Dec. years 10.7 mil. units
Price: $7.63 Div. $1.04 Yield: 13.6% Price/CFU: 8.0X

Year	Op. EPS	CFU	Dist.	High	Low	Yield
1987	$0.32	$1.11	$1.00	$10.88	$6.88	14.5- 9.2%
1988	0.32	1.06	1.04	9.63	7.38	14.1-10.8%
1989E	NE	1.10	1.04	9.38-	7.00	14.9-11.1
1990E	NE	1.12	1.07	7.75	7.25z	

z-To date. CFU incl. interest accretion on zero-coupon debt of $0.44/un in 1988, E$0.48/un. in 1989.

Unitholder data: Institutions hold 1.6%; Insiders 0.01%. Avg. weekly volume: 63,400 un.
Finances 9/89 (Mil.$): Debt: $53.75M; LP Equity: $77.1M; Accum. deprec.: $7.8M: Equity + deprec.: $7.94/un. Debt/equity ratio: 0.69-1.
Address: c/o Shearson Lehman Hutton, 31 W. 52 St. NY, NY 10019. (212) 767-3400